

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
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In the Matter of Interstate
Power Company's 1991 Biennial
Resource Plan Filing

ISSUE DATE: June 26, 1992

DOCKET NO. E-001/RP-91-427

ORDER ACCEPTING FILING,
REQUIRING CONSULTATION WITH
INTERESTED PARTIES, AND SETTING
REQUIREMENTS FOR NEXT RESOURCE
PLAN FILING

PROCEDURAL HISTORY

I. Proceedings to Date

On July 1, 1991 Interstate Power Company (Interstate or the Company) filed its first biennial resource plan under Minn. Rules, parts 7843.0100 through 7843.0600. The Company was the first utility to file under the rules, which were adopted in August 1990.

The rules are detailed, but basically require electric utilities to file biennial reports on the projected energy needs of their service areas over the next 15 years, their plans for meeting projected need, the analytical process they used to develop their plans, and their reasons for adopting the specific resource mix proposed. The rules are designed to strengthen utilities' long term planning processes by providing input from the public, other regulatory agencies, and the Commission. They are also intended to ensure that utilities making resource decisions give adequate consideration to factors whose public policy importance has grown in recent years, such as the environmental and socioeconomic impact of different resource mixes.

On August 5, 1991 the Department of Public Service (the Department) asked the Commission to require the Company to file additional specified information and to extend the comment period on the filing from November 1 to December 1. On August 27, 1991 the Commission issued its ORDER REQUIRING FURTHER FILINGS AND GRANTING VARIANCE, granting both requests.

On September 11, 1991 the Company filed the additional information required under the August 27 Order. On December 2, 1991 the Department and the Residential and Small Business Utilities Division of the Office of the Attorney General (RUD-OAG) filed comments on the Company's resource plan.

The Department recommended accepting the resource plan filing and identifying specific areas of concern to be addressed in the 1993 plan. The Department emphasized that it viewed this proceeding as a non-adversarial dialogue between the Company, regulators, and ratepayers. The RUD-OAG recommended finding the filing inadequate on the basis of flaws in the Company's forecasting techniques.

The matter came before the Commission on May 13, 1992.

FINDINGS AND CONCLUSIONS

II. Commission Action

A. The Filing is Adequate

The RUD-OAG analyzed Interstate's forecasting process, concluded it had serious technical defects, and recommended requiring the Company to improve its forecasting before continuing this proceeding. The RUD-OAG claimed the Company's forecasting methodology was defective in the following ways:

1. The econometric forecast was not checked by using other forecast methods;
2. The forecast was based on the erroneous assumption that system peak demand and system energy are unrelated;
3. In predicting future demand, the forecast oversimplified the effects on demand of the number of households in the Company's service area, household incomes, the average price of electricity, and weather;
4. The forecast was not disaggregated by state and customer class.

The RUD-OAG also claimed Interstate's forecasts have a history of fluctuating substantially from year to year, making forecasting improvements long overdue.

The Commission will not reject Interstate's resource plan due to flaws in its forecasting process. While the Company's forecasting process can and should be improved, delaying this docket until that happens would serve no useful purpose. The Commission is convinced that accepting the 1991 plan and providing guidance for developing the 1993 plan is a more productive approach.

The Company made a good faith effort in developing its first resource plan. As the first company to file a plan, it had no model to follow. None of the planning decisions or proposals set forth in the 1991 filing are irrevocable. The Company has no plans for major capacity additions before Commission review of its 1993 resource plan filing. There is therefore no pressing need to require the Company to rework its 1991 resource plan to meet the concerns of the RUD-OAG and the Department.

Furthermore, the Company expressed a willingness and a desire to work with the Department, the RUD-OAG, and other stakeholders and to build on this year's experience in developing its next plan. The Commission believes that this cumulative, cooperative approach is what the rules envision. That is the reason the rules allow the Commission to direct a utility to address specified issues in its next filing, especially issues not yet totally resolved and issues on which the facts are still emerging or evolving. Minn. Rules, part 7843.0500, subp. 4. The issues raised by the RUD-OAG and the Department are just such issues, and the Commission will direct the Company to work with interested persons to develop them more fully.

B. Issues to Be Addressed in Next Filing

The Commission will direct the Company to work with the intervenors to improve its forecasting process, and to work steadily toward separating Minnesota jurisdictional data from data applicable to other states. The Commission will also require the Company to integrate demand-side management into its planning process, to adopt a social cost approach in rating resource options, to give more serious consideration to demand-side resources and non-traditional supply-side technologies in adopting a resource mix, and to work with state agencies and other interested persons in doing all of the above. The Commission will also provide more general guidelines for the Company's next filing. These requirements will be addressed individually.

1. Forecasting Improvements Required

The RUD-OAG has raised concerns about the Company's forecasting process which ought to be examined in detail by the Company and

interested parties. The Commission will direct the Company to work cooperatively toward this end.

The Commission will also direct the Company to work toward separating Minnesota jurisdictional data from its consolidated service area data as quickly as possible. Minnesota-specific data is essential if the Company and its ratepayers are to obtain the full benefit of the resource planning process. Without Minnesota-specific data it is impossible to gauge, over time, the effects of different resource decisions and the impact of Minnesota regulatory policies on those decisions. In its 1993 filing the Company will report on its progress in isolating Minnesota jurisdictional data from its data base.

2. Demand-side Management to be Integrated into Planning Process

The Company's 1991 filing did address demand-side management, but it treated energy savings from demand-side management as an offset against projected demand. It developed its demand-side management goals in a process separate from the resource planning process. The Commission agrees with the Department that the resource planning process functions most effectively when demand-side and supply-side resources are evaluated together. Having two separate processes can too easily result in overlooking demand-side management as a serious strategy for meeting future need. The Commission will direct the Company to work with stakeholders to develop a fully integrated resource planning process.

3. Social Cost Perspective to be Developed Further

The resource planning rules are designed to increase the number of factors utilities consider in making resource decisions, and to ensure that non-traditional factors now deemed important are given serious consideration. One of these factors is the social cost of different resources and resource mixes. Minn. Rules, parts 7843.0400, subp. 3; 7843.0500, subp. 3. The Commission agrees with the Department that greater attention to the social costs of different resources would strengthen Interstate's planning process, and will direct the Company to work with interested persons to upgrade its process for evaluating social costs.

4. Greater Attention to Demand-side Management and Developing Technologies Required

One of the purposes of the resource planning process is to ensure that utilities give adequate consideration to emerging supply-

side technologies and innovative demand-side management strategies in developing their resource portfolios. The assumption is that this will give utilities the flexibility to adapt to changing conditions, will benefit the environment, and will help utilities recognize and exploit technological breakthroughs as they occur. The Commission agrees with the Department that the Company should work with interested parties to increase its commitment to these technologies and strategies in future resource plans.

As part of this process the Company should consider participation in two programs endorsed by the National Association of Regulatory Utility Commissioners. Those programs are the Green Lights program, aimed at increasing the efficiency of commercial and industrial lighting, and a program to increase utility reliance on photovoltaic generation where currently cost-effective. The Commission will require the Company to explore participation in these programs, in conjunction with the intervenors, and to report its findings in its 1993 filing.

5. General Guidelines for the 1993 Filing

Finally, the Commission will require the Company to include in its 1993 filing specific information which will be helpful as the projected need to add capacity approaches. The Company should clearly identify any need to commit to additional supply-side resources, especially baseload units. It should detail the reasons for the retirement of any unit(s) contributing to the need for new capacity, including its examination of life extension alternatives. It should explain all decisions to purchase or not to purchase capacity from independent power producers. It should explain how its proposed resource plan would be modified in response to changed conditions, especially revisions in its demand forecast.

ORDER

1. Interstate Power Company's 1991 resource plan filing is accepted as adequate under Minn. Rules, parts 7843.0100 through 7843.0600.
2. The Company shall work with the Department of Public Service (the Department), the Residential and Small Business Utilities Division of the Office of the Attorney General, (RUD-OAG), and any other interested persons in examining its forecasting processes, especially the areas identified as concerns in the comments of the RUD-OAG. The Company shall report on these discussions in its 1993 resource plan

filing.

3. The Company shall work toward separating Minnesota jurisdictional data from its consolidated service area data as quickly as possible, and shall report on these efforts in its 1993 resource plan filing.
4. The Company shall work with interested persons to develop a fully integrated resource planning process, in which demand-side and supply-side resources are evaluated as a package. The Company's 1993 resource plan filing shall reflect such an approach.
5. The Company shall work with interested persons to develop a more effective and comprehensive approach to evaluating the social costs of different resources and resource mixes. The Company shall report on these efforts in its 1993 resource plan filing.
6. The Company shall work with interested persons to increase its commitment to emerging technologies and innovative demand-side management strategies in deciding upon its resource mix. The Company shall report on these efforts in its 1993 resource plan filing.
7. The Company shall work with interested persons to explore possible participation in the Green Lights program, endorsed by the National Association of Regulatory Utility Commissioners, and the potential for increased reliance on photovoltaic generation where currently cost effective. The Company shall report on these efforts in its 1993 resource plan filing.
8. In its 1993 resource plan filing, the Company shall clearly identify any additional supply-side resources, especially baseload units, to which it is preparing to commit, and shall detail the reasons for any unit retirements contributing to the need for additional capacity, including an analysis of life extension alternatives considered.
9. In its 1993 resource plan filing, the Company shall explain all decisions to purchase or not to purchase capacity from independent power producers.
10. In its 1993 resource plan filing, the Company shall explain how its proposed resource plan would be modified in response to changed conditions, especially revisions in its demand forecast.
11. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster

(S E A L)

Executive Secretary